

FYI – For Your Information

Credit for Income Tax Paid to Another State

GENERAL INFORMATION

Question: What happens if you have income that was earned *and* is taxable in another state, but was received while you were a resident of Colorado? Answer: This income is taxed in both states, which results in the income being taxed twice.

To alleviate this double taxation, Colorado allows Colorado residents to claim a credit for taxes paid to another state.
[§39-22-108, C.R.S.]

In order to claim the credit, you must file the Colorado Forms 104 and 104CR. You must also attach a copy of the tax return from the other state to your Colorado 104 return. The credit is limited to the smaller of the Colorado tax paid on the income from sources in the other state or the tax paid to the other state on such income.

COMPUTING THE CREDIT

The easiest way to complete your 104CR is to follow these steps:

- Step 1:** Complete your federal income tax return.
- Step 2:** Complete your income tax return for the other state.
- Step 3:** Complete lines 1 through 18 of your 2007 Colorado Form 104.
- Step 4:** Use the following instructions to determine the amounts you should enter on lines 20, 21 and 24 of Form 104CR.

Form 104CR, line 20

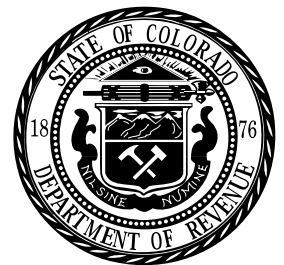
Your modified Colorado adjusted gross income from sources in the other state is the amount of your federal adjusted gross income earned from sources in the other state that is subject to tax by both states. This amount must be reduced by any Colorado “subtractions from federal taxable income” and increased by any Colorado “additions to federal taxable income” (from Form 104) to the extent they apply to this income.

Form 104CR, line 21

Your total modified Colorado adjusted gross income is the amount of your federal adjusted gross income plus and/or minus the Colorado “additions to federal taxable income” and “subtractions from federal taxable income” that apply to this income. The Colorado additions and subtractions that apply to itemized or standard deductions (i.e. state income tax addback, conservation easement deduction, qualifying charitable contribution, etc.) will not affect this computation.

Form 104CR, line 24

Your net tax liability to the other state is the tax liability reduced by any tax credits allowed by the other state.



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(303) 238-FAST (3278)
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(303) 238-SERV (7378)

www.taxcolorado.com

EXAMPLE 1

Taxpayer Brown, who is single and claiming the standard deduction, earned \$3,000 in California but is a Colorado resident. Taxpayer Brown had a Colorado taxable income of \$23,400 and a federal adjusted gross income of \$32,150.

The tax computed on the California tax return is \$90.

FORM 104CR - INDIVIDUAL CREDIT SCHEDULE

2007

Taxpayer's Name		Social Security Number	
Credit for income tax paid to another state – Compute a separate credit for each state. Attach a copy of the tax return filed with the other state.		Name of other state California	
18			
19	Total of lines 15 and 16, Form 104	1,081	00
20	Modified Colorado adjusted gross income from sources in other state	3,000	00
21	Total modified Colorado adjusted gross income	32,150	00
22	Amount on line 20 divided by amount on line 21	9.331	%
23	Amount on line 19 multiplied by percentage on line 22	101	00
24	Tax liability to the other state	90	00
25	Allowable credit, the smaller of lines 23 or 24		90 00

On the sample form above, taxpayer Brown can take a Colorado tax credit for tax paid to another state of \$90, “the smaller of lines 23 or 24.” On the personal credits line of the Colorado Form 104 he would enter \$90. He must attach Form 104CR and a copy of the California return to his Colorado Form 104.

PART-YEAR RESIDENTS OF COLORADO

A part-year resident will generally not claim the credit for tax paid to another state because the income is usually taxed only by the state of residency when the income is earned. However, if income is earned from sources in the other state while the taxpayer is a Colorado resident, then it may be taxed by both states. If this is the case the tax credit can be claimed. The computation of the credit for taxes paid to another state by a part-year resident is more complicated than it is for a full-year resident and the different computations are explained below.

Form 104CR, line 20

Modified Colorado adjusted gross income from sources in the other state is the amount of income earned from sources in the other state during that part of the year that the taxpayer was a resident of Colorado. This amount will always be the net of any Colorado subtractions reported on line 31 of the 104PN schedule to the extent they apply to this income. Do not include any income on this line that was earned while the taxpayer was a resident of the other state.

Form 104CR, line 21

Total modified Colorado adjusted gross income is the amount from line 33 of the Colorado column of the 104PN schedule.

Form 104CR, line 24

Only include the tax paid to the other state on that portion of the income that is being taxed by both states. Do not enter any tax paid on income that was earned while you were a resident of the other state. This amount can be calculated by dividing that portion of the total income earned and taxed by both states by that portion of the total income earned and taxed only by the other state, then multiplying the result by the total tax liability in the other state.

EXAMPLE 2

Tom moved from Kansas in June of 2007. He had wage income of \$20,000 in Colorado and \$14,000 in Kansas. He also had income of \$4,000 from the rental of his Kansas home starting in July 2007. His Kansas tax liability for the year was \$600 on his \$18,000 Kansas income. His 104PN and 104CR would be completed as follows:

Form 104 PN - Part Year Nonresident Form

Lines:

Form 104PN	Federal column	Colorado column
4 Wages	\$34,000	
5 Colorado Wages		\$20,000
16 Rental Income	\$ 4,000	
17 Colorado Rental Income		\$ 4,000
20 Total Income	\$38,000	
21 Total Colorado Income		\$24,000
32 Modified AGI	\$38,000	
33 Modified Colorado AGI		\$24,000
34 Percentage		63.158%
35 Tentative Tax		\$ 1,424
36 Apportioned Tax		\$ 899

Credit for tax paid to Kansas from Form 104CR

Lines:

19 Colorado Tax	\$899
20 Colorado AGI from other state	\$4,000
21 Colorado AGI	\$24,000
22 Line 20 divided by line 21	16.667%
23 Line 19 times line 22	\$150
24 Kansas tax	\$133 $([\$4,000/\$18,000] \times \$600)$
25 Allowable credit	\$133

NONRESIDENTS OF COLORADO

A nonresident of Colorado cannot claim a credit for tax paid to another state in Colorado. A nonresident may be eligible for a similar credit in his/her state of residency.

INCOME AND/OR LOSSES FROM TWO OR MORE OTHER STATES

The total credit for taxes paid to other states may not exceed the Colorado tax attributable to the total non-Colorado source income. If taxes were paid to two or more states, or if income and/or losses are incurred in two or more other states, a separate credit must be computed for each state to which taxes are paid and a limitation computation must be done for all income and/or losses received from other states. The credit will be the lesser of:

- The total of credits computed for each state to which taxes are paid,
- The credit computed using the combined tax paid, income, and losses from all other states.

EXAMPLE 3

Ann is a Colorado resident who has business income from three other states. Her Colorado adjusted gross income is \$78,000. Her income from Nebraska is \$43,000, her income from Utah is \$32,000 and her loss from Iowa is <\$17,000>. Her Colorado tax is \$2,917. The credit for taxes paid to another state is computed as \$1,608 for Nebraska, \$1,197 for Utah and \$0 for Iowa, which results in a tentative credit of \$2,805. However, if the non-Colorado source income is totaled and divided by the Colorado adjusted gross income, the actual credit that can be claimed after the limitation is \$2,169 ($\$58,000/\$78,000 \times \$2,917$).

TAXABLE INCOME MODIFIED BY THE OTHER STATE

The credit for tax paid to another state is computed on the Colorado income that is actually taxed in the other state. When income is modified in the other state but not in Colorado, the modification must be taken into consideration when computing the tax credit.

Example 1: Stan is a Colorado resident who reports \$10,000 of business income earned in California on the Colorado and federal returns. However, California requires an additional \$3,000 in bonus depreciation to be included in taxable income on the California return. Stan's modified Colorado adjusted gross income

from sources in the other state is \$10,000, not the entire \$13,000 that was subject to California tax. The net tax liability from California that will be used in computing the credit will be the net tax on the \$10,000 business income, and will not include the additional California tax computed on the \$3,000 disallowed bonus depreciation.

Example 2: William is a Colorado resident who sells property in Iowa and recognizes a \$50,000 net capital gain on the sale. However, Iowa allows a capital gain subtraction of \$35,000, effectively taxing only \$15,000 of the gain. William's modified Colorado adjusted gross income from sources in the other state is \$50,000, not the \$15,000 that was subject to Iowa tax. The net tax liability from Iowa that will be used in computing the credit will be the net tax on the \$15,000 of taxable income.

COMMON QUESTIONS:

I am a full-year resident of Colorado, but earned income working in another state that does not have a state income tax. How do I get credit for the tax I computed on this income in Colorado?

There is no credit for this income. As a full-year Colorado resident you must pay Colorado tax on all of your taxable income. The credit for taxes paid to another state prevents double taxation of income by two states and will not apply in this situation since the other state is not taxing the income.

I am a full-year Colorado resident and have interest and pension income being paid to me from another state. Will the credit for taxes paid to another state benefit me?

No, interest and pension income is generally taxed only by your state of residence and should not be taxed by the other state.

I paid tax to several other states through an S corporation, both as part of a composite return in some states and through an S Corporation tax in other states. Can I claim the credit for taxes paid to another state for any of these taxes paid?

Yes, the credit is available for income taxes paid on your behalf by an S Corporation. The credit must be computed separately for each state and can only be

claimed for **income taxes** paid. Taxes such as Michigan's single business tax do not qualify for this credit because they are not considered income taxes. Since copies of each state's composite or corporate returns are generally not available to shareholders, you should attach a copy of the statement of taxes provided to you by the S Corporation.

Is the credit available for taxes paid to the District of Columbia or other countries?

The credit is available for taxes paid to the District of Columbia and territories or possessions of the United States. It is not available for taxes paid to other countries.

If a Colorado resident receives income from sources in another state, but pays income tax to that state in a different year than the income is taxable to Colorado, is the credit for taxes paid to another state available?

No. In order to claim the credit for taxes paid to another state, the tax paid to the other state must be computed and paid in the same taxable year as the tax is computed to be due for Colorado. (e.g. wage income is earned in the other state in 2005 but received in 2006. The other state requires the income to be reported in 2005 but the income is reported federally and to Colorado in 2006. In this situation a credit is not available.)

I had a loss in another state, but that state's tax return instructed me to enter \$0 as the net taxable income. Do I use the actual loss or the \$0 reported when computing the credit limitation for two or more states?

The actual loss must be used when computing the credit limitation.

FURTHER INFORMATION

FYIs, commonly used forms and additional tax information are available on the Web at www.taxcolorado.com

For additional income tax information visit the "Tax Information Index" which covers a variety of tax topics including links to forms, publications, regulations, statutes and general questions and answers. The "Tax Information Index" is located at www.taxcolorado.com

FYIs provide general information concerning a variety of Colorado tax topics in simple and straightforward language. Although the FYIs represent a good faith effort to provide accurate and complete tax information, the information is not binding on the Colorado Department of Revenue, nor does it replace, alter or supersede Colorado law and regulations. The Executive Director, who by statute is the only person having authority to bind the Department, has not formally reviewed and/or approved these FYIs.